

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 323 - HB 327

March 24, 2011

SUMMARY OF BILL: Establishes a cap on a member's average final compensation for the purpose of computing a member's retirement benefits payable from the Tennessee Consolidated Retirement System (TCRS). The cap shall be no more than the salaries of Class 1 officials, who are the Commissioners of Education, Finance and Administration, and Transportation, as well as the constitutional officers.

ESTIMATED FISCAL IMPACT:

Decrease State Expenditures - \$830,200

Decrease Federal Expenditures - \$276,800

Decrease Local Expenditures - \$192,000

Assumptions:

- TCRS provides retirement benefits for retired state employees, retired teachers, and retired local government employees.
- Based on information provided by TCRS, and relative to state employees, this bill will decrease the lump sum pension liability of TCRS by approximately \$11,284,000.
- Pursuant to Tenn. Code Ann. § 3-9-103(b), TCRS utilizes a 20-year horizon for estimating annual amortized payments of pension benefits.
- Pursuant to Tenn. Code Ann. § 8-34-505, TCRS utilizes a 7.5 percent interest rate for estimating annual amortized payments of pension benefits.
- Assuming a 20-year horizon, a 7.5 percent interest rate, and a decreased lump sum pension liability of \$11,284,000 relative to state employees, annual retirement benefit payments from TCRS will decrease by \$1,106,872 per year.
- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds. Therefore, a recurring decrease in state expenditures of \$830,154 ($\$1,106,872 \times 75\%$); and a recurring decrease in federal expenditures of \$276,718 ($\$1,106,872 \times 25\%$).
- Based on information provided by TCRS, if all local government entities authorize this bill, the total lump sum pension liability will decrease by an additional \$1,957,300.
- One hundred percent of local governments authorize this bill.

- Assuming a 20-year horizon, a 7.5 percent interest rate, and a decreased lump sum pension liability of \$1,957,300 relative to local government employees, annual retirement benefit payments from TCRS will decrease by \$192,000 per year.
- Retirement benefits for local government employees are funded 100 percent with local government contributions. Therefore, a recurring decrease in local government expenditures of \$192,000.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc